

May Recap

Taken together, May saw markets extend their gains from the prior month as resilient corporate earnings and structural AI-driven demand boosted investor enthusiasm. Movements within markets weren't uniform, however, as tech names had largely driven this month's rally. Rising yields and conflicting economic data added macroeconomic headwinds which ultimately pressured sectors such as consumer staples and utilities. Alongside this, expectations of a more restrictive Fed rose, as policymakers voiced the possibility of rate hikes. Nevertheless, investors ultimately moved past these developments as the reemergence of resolution talks reignited investor optimism. The month ultimately closed on a positive note, as market sentiment was the highest it'd been since the start of the war.

An Iran War with Seemingly no End

To start the month, investors patiently awaited our administration's response to resolution proposals sent by Iran on the 27th and 28th of April. At first, not much had materialized regarding these discussions, with disagreements stemming from both sides. Yet, despite this, markets continued to price in the resolution as though it were absolute. This notion continued for two weeks, but started to lose momentum as time went on.

As the month progressed, investors became accustomed to comments from our current President that a resolution was near. At the same time, Iranian media would vocalize to its citizens that this wasn't true. Nevertheless, markets eventually started looking past this, and continued their previous upwards momentum. Part of this came from optimism surrounding the AI-trade and the shift of capital to hardware and memory names. The development of this trade partially alleviated investor concerns surrounding U.S.-Iran relations, and allowed for records to be broken across the board in equity markets.

During the final week of May, investor optimism surrounding ongoing resolution talks reached its highest level. Right before Memorial Day, major news outlets started reporting that both countries were in the final stages of negotiations. This was later met with reports that Iranian media had started reporting the framework of its resolution to its citizens, signaling that it believed that an agreement was imminent. White House officials, on the other hand, dismissed the whole idea. Regardless, negotiations continued throughout the week as both sides worked towards finding common ground. On the final trading day of the month, reports emerged that Iran had proposed extending its ceasefire by an additional sixty days. President Trump and his administration have yet to comment. Although the proposal carries considerable uncertainty, it still boosted investor optimism. While a resolution may not have materialized, we're the closest we've ever been to one, and it was this notion that allowed investor optimism to really breakthrough in the latter half of this month.

Broadening of the AI Trade

When optimism surrounding artificial intelligence initially started to catch on, names like Nvidia and AMD had taken the headlines. Their GPUs played a vital role in the training and development of many of the LLMs we see today. However, at the time many overlooked the infrastructure needed for those chips to function. Memory chips are needed alongside GPUs to store data. Then physical hardware in the form of server racks and motherboards is needed to actually house those chips. It was the realization of this by investors that ultimately led to the sharp rise in tech names we had seen this past month.

Micron took the headlines by far, as it had a monumental month. Micron specializes in developing High-Bandwidth Memory (HBM), an ultra-fast type of memory. These chips displayed an immense amount of

demand, as Micron reported that their entire memory supply for 2026 had already sold out. As time progressed, the company's market cap eventually crossed \$1 trillion, as shares rose around 79% on the month. Strong corporate earnings paired with upgrades by analysts drove this move. Eventually, some investors even started shifting their view of Micron from a cyclical manufacturer to a company positioned to benefit from the more structural nature of AI-driven demand.

Dell and SMCI had also seen outsized moves this past month. Shares of Dell had risen around 101%, while SMCI's had risen 70%. Both Dell and SMCI play a vital part in developing the infrastructure needed to house semiconductor chips. They also develop the liquid-cooling systems needed to prevent chips from overheating. The importance of this was underscored through Dell's recent earnings, where an influx of hardware demand largely boosted their financials. The exhibition of this is what drove the large moves we had seen this month.

Capital allocation among investors is starting to shift. Capital initially flowed towards chip-designers like NVIDIA and AMD, but as time has gone on it has shifted towards memory and infrastructure names. Markets continue to realize the importance the latter group plays in the current AI-environment, and have rewarded shares accordingly. The current theme now continues to remain memory / hardware, as structural demand and resilient corporate earnings have reinforced investor optimism.

Markets Diverge as Yields Reach Multi-Year Highs

During the latter half of this month, yields rose to record-levels as markets digested the impacts of the Iranian conflict. Concerns regarding persistent inflationary pressure through elevated energy prices prompted a global bond sell-off, which ultimately raised yields. At their peak, ten-year treasuries yielded 4.52%, while thirty-year treasuries yielded 5.19%. Yields on thirty-year treasuries hit their highest level since 2007, a 19-year high.

In the past, rising yields have led to a corrective wave across equity markets, especially within growth stocks. However, this wasn't the case this time around. While most sectors across markets contracted following this rise, the tech sector did not. A combination of renewed investor enthusiasm and strong corporate earnings overshadowed the large bond sell-off, and allowed for tech names to continue their upwards momentum.

Conversely, the last time thirty-year treasuries passed the five percent threshold, tech names did see a large sell-off. Many investors recalled this when yields crossed that threshold even earlier this year, yet what they had expected had not turned out. It's important to note the large sell-off seen in October 2023 occurred under markedly different conditions. The AI-trade was still in its initial euphoria stage, while at the same time, corporate earnings weren't as strong. Today it's the opposite. Investors continue to see the returns generated from investments in artificial intelligence through resilient corporate earnings. This, in turn, has continued to reinforce optimism regarding future prospects for tech names and has allowed them to endure macroeconomic headwinds. Markets today are in a much different position than they were in the past, and this has led to the divergence seen today in market movement. For now, investor optimism remains sky-high, with limited signs of a near-term reversal.

Markets Digest Conflicting Economic Data

With the impacts of the Iran conflict still unfolding, investors turned to BLS data for clarity on the state of the economy. However, the latest releases offered little direction, and instead sent mixed signals to markets.

April's employment data, which was released in this month's report, displayed a resilient labor market. Total non-farm employment rose by 115,000 jobs, on a seasonally adjusted basis. While lower than March's increase of 185,000 jobs, it was still largely above consensus estimates of 55,000. The unemployment rate remained unchanged at 4.3% as well. The release underscored the labor market's resilience, as employment conditions remained stable despite rising energy prices driven by the ongoing conflict in the Middle East.

In contrast, inflation data remained firm. Headline CPI rose 3.7% year-over-year in April, up from 3.3% in March, while Core CPI increased to 2.8% from 2.6%. Similarly, headline PCE printed at 3.8%, with Core PCE at 3.6%, reinforcing persistent underlying price pressures. Energy costs are a key input across the economy, influencing the prices consumers pay for a broad range of goods and services. As energy prices continue to rise, inflationary pressures are likely to persist as time goes on.

This month's economic data also signaled to investors that the Fed's path moving forward isn't as clear. Markets may not be pricing in a rate change for June's meeting, but the meeting still remains important as it will provide insight into the Fed's thinking. We've even seen that some policymakers have shifted their sentiment since this war, and are now open to raising rates. Whether or not this notion spreads across more members remains a key question, and one that investors patiently await.

AI-Integration Continues to Support Tech Layoffs

At the start of this year, tech layoffs were a mainstay in financial headlines as more and more companies announced workforce reductions. CEOs of companies who went through layoffs often cited the integration of artificial intelligence as the driving force behind these movements. This notion, in turn, highlighted the materialization of AI-disruption to the labor market, a pattern that markets have anticipated for a while.

This past month saw the return of this trend, as many tech companies, including Meta, announced layoffs. Meta reduced around 10% of its workforce this month, on top of reductions that occurred previously in the year. Intuit reported plans to lay off around 17% of its workforce, which, according to CEO Sasan Goodarzi, was used to help the company refocus on its AI efforts. Cisco also laid off around 4,000 employees in an effort to shift towards AI-integration. The development of artificial intelligence has continued to displace workers, especially those in tech or tech-related fields. As agentic AI capabilities continue to advance, many investors expect workforce reduction efforts to persist and potentially accelerate. While these reductions have weighed on employee morale, and may continue to do so, investors have generally viewed them favorably.

The argument for shareholders is that they begin to see the realization of the massive investments that many companies have undergone. The expectation is that these actions will be accretive to earnings and support higher share prices. However, whether or not this occurs remains the vital question. Sure, the argument can be made for cost efficiency, but, at the same time, another question arises, and that's if these monetary savings outweigh the impact on employee morale?